

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 884 - HB 1036

March 25, 2017

SUMMARY OF BILL Increase the State Building Commission contract amount limit from in excess of \$100,000 to in excess of \$200,000 when the execution of a good and solvent corporate surety payment and performance bond is required.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – Net Impact – \$36,800/Facilities Revolving Fund

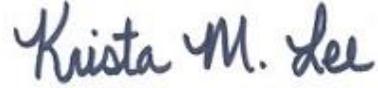
Assumptions:

- The Department of General Services (DGS) currently has 94 projects totaling \$9,100,291 in project value.
- There were six projects in FY14-15 with value greater than \$100,000 and less than or equal to \$200,000, for a total value of \$874,200, and fifteen of such projects in FY15-16 with a total value of \$2,395,475. The average total project value for all projects with individual values greater than \$100,000 and less than or equal to \$200,000 is estimated to be \$1,634,838 $[(\$874,200 + \$2,395,475) / 2]$.
- Based on information provided by DGS, these relatively low dollar value projects are anticipated to attract smaller contractors with limited resources to remedy potential problems associated with such contracts. Further, contractors that are expected to bid for these types of projects are not typically bonded, unless required to be, or may not be bondable.
- It is assumed that 35 percent of projects with value greater than \$100,000 and less than or equal to \$200,000, will experience issues and become problematic for the state. The total value of such projects is estimated to be \$572,193 $(\$1,634,838 \times 35.0\%)$.
- Based on information provided by DGS, it is assumed that there will be a 35 percent increase in costs for such projects that result from legal actions and additional designer fees due to potential project extensions; therefore, the recurring increase in state expenditures to the Facilities Revolving Fund (FRF) is estimated to be \$200,268 $(\$572,193 \times 35\%)$.
- It is assumed that the expected increase in vendor competition resulting from the increase of the bondable threshold to \$200,000 will lead to 10 percent savings on contract costs to the state for projects with value greater than \$100,000 and less than or equal to \$200,000. The resulting recurring decrease in state expenditures to the FRF is estimated to be \$163,484 $(\$1,634,838 \times 10.0\%)$.

- The net recurring increase in state expenditures to the FRF is estimated to be \$36,784 (\$200,268 - \$163,484).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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